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Regulatory Affairs

Teleport Communications Group  
Two Teleport Drive, Suite 300  
Staten Island, NY 10311-1004  
Tel: 718.355.2000  
Fax: 718.355.4876

November 1, 1996

**BY HAND DELIVERY**

William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: Implementation of the Pay Telephone Reclassification and  
Compensation Provisions of the Telecommunications Act of 1996  
(CC Docket No. 96-128)

Dear Mr. Caton:

Teleport Communications Group Inc. ("TCG") hereby gives notice of an ex parte presentation in the above-referenced proceeding. On November 1, 1996, Teresa Marrero of TCG sent the attached letter by hand-delivery to Regina Keeney, Chief of the Common Carrier Bureau. Copies of the letter were also hand-delivered to Chairman Hundt, Commissioner Quello, Commissioner Ness, and Commissioner Chong. An additional copy was hand-delivered to Michael Carowitz of the Common Carrier Bureau.

Very truly yours,

Teresa Marrero  
Senior Regulatory Counsel  
(718) 355-2939

**Attachment**

cc: Chairman Reed E. Hundt  
Commissioner James H. Quello  
Commissioner Susan P. Ness  
Commissioner Rachel B. Chong  
Regina Keeney  
Michael Carowitz

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Regulatory Affairs

Teleport Communications Group  
Two Teleport Drive, Suite 300  
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November 1, 1996

**BY HAND DELIVERY**

Ms. Regina Keeney  
Chief, Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, N.W., Room 500  
Washington, D.C. 20554

Re: Implementation of the Pay Telephone Reclassification and  
Compensation Provisions of the Telecommunications Act of 1996  
(CC Docket No. 96-128)

Dear Ms. Keeney:

Teleport Communications Group Inc. ("TCG") offers competitive payphone service through affiliates in a number of states. As a participant in this proceeding, TCG is submitting its position on two significant issues raised in this proceeding: first, the market-based rate should be applied to determine compensation, and second, the interim compensation rate should apply to payphones without regard to the per phone revenue.

**I. A MARKET-BASED RATE IS APPROPRIATE**

The 1996 Act requires that all payphone service providers ("PSPs") be "fairly compensated for each and every completed intrastate and interstate call using their payphone."<sup>1</sup> A number of parties to this proceeding have claimed that the market-based rate established by the Commission in the Payphone Report and Order overcompensates the PSPs and that the rate should instead be based on costs. This argument, however, fails to acknowledge the fact that payphone

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1. 47 U.S.C. § 276(b)(1)(A).

Ms. Regina Keeney  
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service, unlike the local exchange markets, is highly competitive.<sup>2</sup> The market rate, therefore, results in an equilibrium price based upon the market supply and demand; it provides the most economically justifiable estimate of the cost for the service. Since a competitive market exists for payphone service, it is not necessary that the Commission devote its resources, and those of LECs, to analyzing incremental cost data. Moreover, the directive of Section 276(b)(1)(A) that payphone providers be "fairly compensated," clearly gives the Commission discretion to employ market-based rates as a fair compensation standard.

## **II. THE INTERIM RATE APPLIES TO ALL PAYPHONES**

The market-based rate should apply to all payphones, and the suggestion of some parties that the monthly rate should not have to be paid for the so-called "low-revenue" payphones should be rejected. The Commission's proposed monthly rate which will apply for the next year is clearly an average based upon compensable calls from a cross-section of payphones.<sup>3</sup> Undoubtedly, if analyzed on an individual basis, some payphones actually would be due more compensation, and others, perhaps less. However, the object of the interim flat-rate is to estimate an average across all payphones. This is a fair means of meeting the obligations of Section 276 until such time as appropriate per-call compensation mechanisms are in place. Such mechanisms are required by the Commission during the second and third compensation phases.

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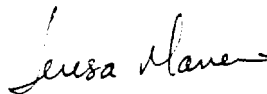
2. See Report and Order at ¶¶ 11-19, 70 ("Because . . . the payphone marketplace has low entry and exit barriers and will likely become increasingly competitive, we conclude that the market . . . is best able to set the appropriate price for payphone calls in the long-term. . . . [T]he appropriate per-call compensation amount ultimately is the amount the particular payphone charges for a local coin call, because the market will determine the fair compensation rate for those calls." (¶ 70)).

3. See Report and Order at ¶¶ 123-125.

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For these reasons, the Commission should retain the market-based compensation rate. In the interim, the monthly flat-rate should be applied to all payphones.

Sincerely,

A handwritten signature in cursive script, appearing to read "Teresa Marrero".

Teresa Marrero  
Senior Regulatory Counsel  
(718) 355-2939

Attachment A

cc: Chairman Reed E. Hundt  
Commissioner James H. Quello  
Commissioner Susan P. Ness  
Commissioner Rachel B. Chong  
Michael Carowitz  
Parties identified in Attachment A

## **ATTACHMENT A**

Airtouch Paging  
American Public Communications Council  
Ameritech  
Arch Communications Group, Inc.  
AT&T Corp.  
BellSouth Corporation  
Cable & Wireless, Inc.  
Public Utilities Commission of the State of California  
The Competitive Telecommunications Association  
Consumers Union Southwest  
Office of the People's Counsel for the District of Columbia  
Indiana Utility Regulatory Commission  
New Mexico State Corporation Commission  
Inmate Calling Services Providers Coalition  
Invision Telecom, Inc.  
LCI International Telecommun., Inc.  
LDDS WorldCom  
Maine Public Utilities Commission  
MCI Communications Corporation  
New Jersey Payphone Association  
NYS Department of Public Service  
National Telephone Cooperative Assn.  
Public Utilities Commission of Ohio  
Oklahoma Corporation Commission  
Pagemart II, Inc.  
Paging Network, Inc.  
Peoples Telephone Company, Inc.  
Pennsylvania Public Utility Commission  
Personal Communications Industry Association  
Robert L. Hoggarth  
Paging and Narrowband  
Personal Communications Industry Association  
Puerto Rico Telephone Company  
RBOC Payphone Coalition  
The Southern New England Telephone Company  
Southwestern Bell Telephone Company  
Sprint Corporation  
Telecommunications Resellers Association  
Public Utility Commission of Texas  
Touch 1 Communications, Inc.  
United States Telephone Association  
Wisconsin Pay Telephone Association, Inc.  
1-800-FLOWERS